

*Chairman's Statement*  
*Sen. Tom Coburn, M.D. (R-OK)*  
*Unobligated Balances: Freeing up Funds,*  
*Setting Priorities and Untying Agency Hands*  
*May 18, 2006*

Good afternoon. Today we are here to talk about something called “unobligated balances.” An “unobligated balance” is money that we appropriate to a government agency, but for whatever reason, the agency does not or cannot spend it that year, and so the money sits, parked in the agency’s accounts. There are different types. The first kind of unspent funds are called “expired funds” – money we said was to be spent during a certain fiscal year. At the end of the year the money is considered expired, but it is supposed to sit there for 5 more years in the accounting system. At that point, it’s supposed to go back to the Treasury where it can pay down debt or be put toward emergencies and other priorities.

The notion is that bills come late, projects get delayed, so the money should be available for 5 years to pay for commitments made during that first year. We can argue about whether 5-years is too long but one thing is sure – the system isn’t working the way it should. First of all, there’s just too much expired money. From our cursory investigation, it looks like there is at least \$54 billion of expired funds. That’s over half the war supplemental we just passed. We ought to be thinking seriously about how to investigate expired funds each year in a systematic way so that we can figure out how much of it we are likely to need to pay bills we’ve already incurred and how much is just going to gather dust for 5 years.

Another problem is that Congress views expired funds approaching their 5-year waiting period as new money in the year that they are supposed to revert to the Treasury. That means that if we appropriated a million dollars in fiscal year 2000, and that million didn’t get used, in 2006, Congress can take that million, and spend it for “free” on 2006 programs. That means that we actually spend a million MORE than the budget caps allow. Calling this money “new budget authority” renders meaningless the spending caps that are in place each year. What’s worse, it’s used to grow government and liabilities in 2006 rather than paying down the debt incurred by repeated supplemental appropriations bills and out-of-control entitlement spending.

This is not how a business operates. Let’s say a small business is operating in the red, and its owner finds that money he set aside last year for something turns out not to be needed after all, do you think he just decides to

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buy a new car with that cash instead? No, he puts that money toward his debt in order to shore up the fiscal stability of his business. The Federal government should take the same approach. The money should not be used to offset spending that would otherwise bust the budget cap if not for this accounting gimmick.

By my estimates, and let me tell you – it has been *hard* to estimate because we're not keeping good track of this at the Federal level – there is somewhere around \$430 billion in unspent funds government-wide. Of this, at least \$54 billion is sitting in expired accounts. I am not confident that this number is even in the ballpark of what's really sitting in these accounts.

It was very difficult to get exact figures because the Office of Management and Budget does not track this money. They cannot provide me with a reasonable figure for the carryover balance of unobligated funds government-wide because the agencies keep their own records. I am not doubting the financial accounting of individual agencies, but I think these are records OMB should officially monitor and keep to inform the budget makers and financial managers.

Expired funds are only one type of unobligated balances. There are other types – those sitting in multi-year accounts for projects expected to stretch out over several years, and those in so-called “no-year” accounts – such as contingency funds that need to be ready if needed at any time, such as the vaccine injury compensation fund or the public health emergency fund. The amounts in these accounts is around **\$376 billion**. While some of these no-year accounts are important to retain, it's worth an examination. Certain funds need to stay at a certain level, but some could certainly be reduced.

Several programs consistently carry-over a large amount of money each year, but then have no problem asking Congress for budget increases. Take food stamps. OMB estimated that last year the program carried over \$2 billion in unobligated balances at the end of the fiscal year. The program is estimated to carry over \$3 billion this year *and* next. Yet I am sure the Administration will continue to request steady or increased funding for the program regardless of the reserve balances.

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It's time to start thinking creatively about the budget process. Given the serious financial challenges we face, at the very least we should be asking these questions and exploring all avenues so future generations may have the same opportunities we have had.

The one consistent finding from our investigation has been that every agency uses different definitions of terms, tracks different types of balances, and has different rules governing unspent funds. Department of Justice, for instance, has a special waiver allowing it to treat unspent funds differently than other Departments. With OMB responsible for the overall budget request process, it sure would be helpful if they set some systematic standards about how to define, measure, and report unspent funds at all agencies.

I'm disappointed that OMB is not testifying here today, since fixing this problem is so critical to developing a responsible budget request. The ad hoc system we have now is allowing billions of dollars go to waste every year. Our children and grandchildren will pay for that waste with interest.